

Message Text

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ORIGIN EB-07

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FM SECSTATE WASHDC

TO AMEMBASSY MANILA PRIORITY

AMEMBASSY SEOUL

AMEMBASSY TAIPEI

C O N F I D E N T I A L STATE 184193

C O R R E C T E D C O P Y (PARA 4 LINES 7&8 MISSING)

E.O. 11652:GDS

TAGS: ETRD, RP, TW, KS

SUBJECT: COTTON CONTRACT PROBLEM

REF: MANILA 10221 (NOTAL, STATE 181076, (NOTAL), MANILA
10681 (NOTAL)

1. WE TOO ARE VERY CONCERNED ABOUT POSSIBILITY OF WEIGHT
AND QUALITY SHORTAGES. AFTER ASSURANCES WERE SIGNED, WE
NOTIFIED CO-OPS, CIEC AND ACSA THAT WE COULD NOT CONDONE
PRACTICE OF SHIPPING SHORT, GOING TO ARBITRATION, THEN
COUNTER-CLAIMING CARRYING CHARGES TO OFF-SET MILL'S
ARBITRATION AWARD. WE HAVE STRONGLY RE-EMPHASIZED THAT
POSITION BOTH TO INDIVIDUAL SHIPPERS AND TO SHIPPERS
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ORGANIZATIONS DURING PAST WEEK. WE ALSO INTEND TO MAKE
ISSUE MAJOR AGENDA ITEM DURING UPCOMING MEETING WITH
SHIPPERS' REPRESENTATIVES IN WASHINGTON.

2. EMBASSIES ARE CERTAINLY AWARE THAT MANY SHIPPERS BELIEVE CARRYING CHARGES ARE PART OF CONTRACTUAL OBLIGATION OF MILLS. CERTAINLY THERE IS NOTHING IN ASSURANCES TO INDICATE CUSTOMARY PRACTICE REGARDING CARRYING CHARGES DOES NOT APPLY: IN GOP ASSURANCES, CARRYING CHARGES ARE NOT MENTIONED. BOTH ROKG AND ROC ASSURANCES SPECIFICALLY STATE THAT NOTHING IN ASSURANCES

SHALL BE TAKEN AS WAIVER OF CUSTOMARY PRACTICES REGARDING CARRYING CHARGES. NOR IS IT AN UNUSUAL PRACTICE, EVEN IN MORE SETTLED TIMES, FOR SHIPPERS TO USE SHORT SHIPMENT-COUNTER CLAIM METHOD AS MEANS OF SETTling DIFFERENCES. SHIPPERS VIEW IS THAT MILLS ARE DEMONSTRABLY CHEATING ON CARRYING CHARGES (AND ON ENTIRE CONTRACT WHEN POSSIBLE) AND, THEREFORE, SHIPPERS ARE WITHIN THEIR RIGHTS TO ATTEMPT TO COUNTER THIS CHEATING IN AN EFFORT TO COVER THEIR COSTS. THIS VIEW WE HAVE NOT SUPPORTED AND WILL NOT SUPPORT.

3. INFORTUNATELY, PROBLEM MAY BE COMPLICATED BY TWO FACTORS: 1) MILLS' TENDENCY TO CLAIM SHORTAGES WHERE NONE EXIST. IF A MILL COMPLAINS ABOUT SHORT WEIGHT, THE CLAIM CAN BE QUICKLY SUBSTANTIATED BY OFFICIAL WEIGHTS TAKEN WHEN COTTON WAS OFF-LOADED. IF A QUALITY CLAIM IS INVOLVED, ARBITRATION PROCEDURES MUST BE

STRICTLY FOLLOWED TO ESTABLISH THE CLAIM.

2) "FRANCHISING" UNDER PRACTICE OF "FRANCHISING", SHIPPERS SHIP SLIGHTLY SHORT ON WEIGHT, THEN SETTLE THE CLAIM WHEN PRESENTED BY MILLS. SINCE IT IS DIFFICULT TO SHIP EXACT WEIGHTS, THIS PRACTICE SUPPOSEDLY AVOIDS OVERSHIPPING AND EXCHANGE CONTROL PROBLEMS INVOLVED IN COLLECTING CHARGES ABOVE AMOUNT SHOWN ON L/C. FRANCHISING INVOLVES ONLY A SMALL WEIGHT DIFFERENCE AND SHOULD BE EASILY DIFFERENTIATED FROM ATTEMPTS TO COLLECT CARRYING CHARGES. AGAIN, WE HAVE EXPLAINED DANGER OF PRACTICE IN CONTEXT OF ASSURANCES.
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4. GUARANTEE THAT QUALITY STANDARDS WILL BE MAINTAINED WILL NOT BE FORTHCOMING FROM INDUSTRY BECAUSE SHIPPERS BELIEVE THAT A PUBLIC STATEMENT OF THIS NATURE BY THEIR ORGANIZATIONS, BY WASHINGTON AGENCIES OR BY EMBASSIES WOULD ELIMINATE ALL CHANCES OF OBTAINING CARRYING CHARGES. WE HAVE CLEARLY INDICATED TO SHIPPERS THAT EVEN AS A THREAT SHORT SHIPPING IS DOUBLE-EDGED, AND AS POLICY, IT IS COUNTER-PRODUCTIVE TO THEM AND UNACCEPTABLE TO US.
5. OUR POLICY WILL BE AS FOLLOWS: U.S. SHIPPERS SHOULD NOT AND CANNOT DEPEND ON ASSURANCES TO FORCE ANY MILL TO OPEN L/C'S WITH A U.S. SHIPPER WHO IS PROVEN TO HAVE SHIPPED SHORT. ASSUMPTION WILL BE THAT SHIPPER INTENDS TO COUNTER-CLAIM FOR CARRYING CHARGES. HOPE-

FULLY, THESE CASES WILL BE RARE, BUT IT WOULD BE UN-
REALISTIC TO PRETEND THAT THERE WILL BE NONE.

6. FOR MANILA ONLY: WE UNDERSTAND SHIPPERS CONCERNED
ARE MEETING CERTIFICATION REQUIREMENTS WHICH SOLID MILLS

INCLUDED IN THEIR L/C'S, SO THERE IS NO NEED FOR
INTERVENTION BY EMBASSY. KISSINGER

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